

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-10 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01  
OMB-01 SS-15 STR-07 CEA-01 L-03 H-01 PA-01  
ICAE-00 SSO-00 NSCE-00 INRE-00 ITC-01 DOE-15  
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O 301620Z MAY 78  
FM AMEMBASSY ROME  
TO SECSTATE WASH DC IMMEDIATE 3150  
TREASURY DEPT WASH DC IMMEDIATE  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY PARIS

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E.O. 11652: N/A  
TAGS: EFFIN, IT  
SUBJECT: THE LONG EXPECTED MINI-BUDGET IS A DISAPPOINTMENT

USEEC/USOEC

1. SUMMARY: LONG AWAITED ACTION ON NEW FISCAL MEASURES  
(WHAT TREASURY MINISTER PANDOLFI HAD LABELLED AS A "MINI-  
BUDGET") WAS TAKEN BY THE COUNCIL OF MINISTERS ON FRIDAY,  
MAY 26. USING THE DECREE LAW MECHANISM, IT RAISED A  
NUMBER OF TARIFF RATES AND TAXES YIELDING ADDITIONAL  
1,44 BILLION LIRE (\$1.65BILLION) RESULTING IN A 1,240 BILLION  
LIRE (\$1.4BILLION) INCREASE  
IN THE SIZE OF THIS YEAR'S PUBLIC SECTOR DEFICIT. SINCE  
THE EXPECTATION WAS THAT THE GOVERNMENT WOULD REDUCE THAT  
DEFIECIT, PANDOLFI STRESSED THAT THIS WAS ONLY THE FIRST  
STEP IN THE GOVERNMENTS EFFORTS TO TACKLE THE ISSURE OF  
THE ENLARGED PUBLIC SECTOR DEFICIT. HE INDICATED THAT  
MEASURES WILL BE CONSIDERED AT THE CONCLUL OF MINISTERS  
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MEETING ON JUNE 9 TO OMPLEMENT THE GOVERNMENTS TARGET  
TO REDUCE EXPENDITURES OF THE ENLARGED PUBLIC SECTOR BY  
5 PERCENT ACROSS THE BOARD (WHICH COMES TO ABOUT 5,000  
BILLION LIRE ACCORDING TO EMBASSY CALCULATIONS BASED  
ON MARCH 31 CASH BUDGET FORECAST FOR 1978). THE ANNOUNCED  
ACTIONS WERE NOT WELL RECEIVED PUBLICLY BY THE POLITICAL  
PARTIES SUPPORTING THE GOVERMENT LABOR UNIONS, INDUSTRY

REPRESENTATIVES AND MOST PRESS COMMENTATORS. END SUMMARY.

2. THE COUNCIL OF MINISTRES APPROVED ON MAY 26 THE FOLLOWING ACTIONS:

3. REVENUE

A. TARIFF INCREASES: INCREASES IN SERVICE RATES FOR THE DEFICIT-PLAGUED NATIONAL ELECTRICITY AGENCY (ENEL) AND RAILWAYS HAD BEEN FULLY EXPECTED WITH THE ONLY DOUBT BEING THE AMOUNT AND TIMING OF THE INCREASES. RAIL RATES ARE TO BE INCREASED AN AVERAGE 20 PERCENT BEGINNING JULY 15, 1978. RATE INCREASES WILL APPLY TO BOTH PASSENGER FARES AND FREIGHT RATES AND WILL ACTUALLY RANGE BETWEEN 10 AND 30 PERCENT. AN ADDITIONAL 70 BILLION LIRE (80 MILLION) ARE EXPECTED TO BE REALIZED IN 1978. ELECTRICITY RATES WILL INCREASE AN AVERAGE OF 16 PERCENT WITH EXPECTED REVENUE INCREASES TO AMOUNT TO 630 BILLION LIRE (\$724 MILLION). THE SO-CALLED "SOCIAL RATE" WHICH SETS VERY LOW CONSUMER RATES FOR HOUSES RATED BELOW A 3 KILOWATT POTENTIAL AND IS ESTIMATED TO AFFECT NEARLY 90 PERCENT OF USERS, WILL BE SIGNIFICANTLY ADJUSTED BY DECEMBER 31 IN ORDER TO PREVENT ABUSES. ADJUSTMENT IN ELECTRICAL RATES WILL BE PHASED WITH THOSE WHO PAY ON A MONTHLY BASIS BEING AFFECTED BEGINNING JUNE 1 AND THOSE ON QUARTERLY PAYMENT BASIS AFFECTED JULY 1.

B. FISCAL MEASURES. A DECREE LAW WAS APPROVED(WHICH REQUIRES PARLIAMENTARY RATIFICATION) COVERING A BARIETY OF FISCAL MEASURES LIMITED OFFICIAL USE

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EXPECTED TO INCREASE REVENUES A TOTAL OF 740 BILLION LIRE. \$850 MILLION) THESE MEASURES INCLUDE INCREASING THE ROAD TAX ON AUTOMOBILES TO THE LEVEL EXISTING IN 1976 FOR 25 BILLION ADDITIONAL LIRE IN 1978. (THE ROAD TAX WAS ADJUSTED IN 1976 TO MAKE THE TAX MORE PROGRESSIVE BUT WITH A NET REDUCTION IN REVENUES.) ALSO APPROVED WAS A MEASURE TO LOWER THE MINIMUM FOR ADVANCE PAYMENT OF THREE-FOURTHS OF THE CURRENT YEARS TAX FOR THE SELF-EMPLOYED AND BUSINESSES.THE PAYMENT, WHICH IS DUE IN NOVEMBER, WAS LIMITED TO TAXES DUE OF 250,000 LIRE OR MORE IN 1977, BUT THE PRESENT DECREE WILL LOWER THAT MINIMUM TP 100,000 LIRE WITH AN EXPECTED INCREASE IN REVENUES OF 230 BILLION LIRE IN 1978. WITHHOLDING TAX ON CONTRACT PAYMENTS TO THE SELFEMPLOYED (PROFESSIONALS, ARTISTS, MERCHANTS, ARTISANS, ECT) WAS RAISED FROM 13 TO 15 PERCENT WITH AN EXPECTED INCREASE IN REVENUES OF 40 BILLION LIRE. STAMPED PAPER FOR OFFICIAL ADMINISTRATIVE PAPERS WAS RAISED FROM 1,500LIRE TO 2,000 AND FOR JUDICIAL ACTS FROM 400 TO 700 LIRE. A NUMBER OF MINOR TAXES WERE ALSO RAISED WITH A TOTAL EXPECTED INCREASE IN REVENUES OF 275 BILLION LIRE IN 1978. WITHHOLDING TAX ON INTEREST PAID

ON BANK DEPOSITS WAS RAISED FROM 18 PERCENT TO 20 PERCENT (THE RATE ROSE FROM 16 TO 18 PERCENT IN DECEMBER 1977) WITH ADDITIONAL REVENUES ESTIMATED AT 150 BILLION LIRE, AND THE CONSUMPTION TAX ON BANANAS RAISED TO 250 LIRE A KILO WITH 17 BILLION LIRE INCREASED REVENUES EXPECTED. AND FINALLY THE INTEREST PENALTY ON DELINQUENT PAYMENT OF CUSTOM DUTIES WAS RAISED, FOR AN ADDITIONAL FOUR BILLION LIRE.

4. EXPENDITURES. NEW EXPENDITURES MEASURES ARE PRIMARILY DESIGNED TO PROVIDE FOR INCREASES IN CAPITAL CONTRIBUTIONS FOR STATE AGENCIES. THESE INCLUDE AN ADVANCE CONTRIBUTION OF 100 BILLION LIRE TO ENEL OF THE 3,000 BILLION LIRE IN PLANNED CONTRIBUTIONS OVER SEVERAL YEARS AND INCREASE LIMITED OFFICIAL USE

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BY 60 BILLION LIRE IN 1978 OF THE CONTRIBUTION TO CNEN (NUCLEAR AGENCY), AND ADVANCE REFINANCING OF THE ARTISAN FUND WITH 83 BILLION LIRE FROM THE MULTI-YEAR EXPECTED ASSISTANCE OF 533 BILLION LIRE. (SOFT LOANS FOR IMPROVING DISTRIBUTION) COMMERCIAL CREDIT/ RECEIVES AN ADVANCE OF 25 BILLION LIRE FROM THE MULTI-YEAR PLAN OF 200 BILLION LIRE, EXPORT CREDIT 20 BILLION FROM ITS MULTI-YEAR PLAN OF 900 BILLION AND THE NATIONAL HOSPITAL FUND 1085 BILLION, (THE BALANCE REMAINING OF THE TOTAL ANTICIPATED 5135 BILLION LIRE EXPENDITURES). THE AIRPORT CONSTRUCTION MULTI-YEAR PLAN RECEIVES 15 BILLION IN 1978 FROM THE PLANNED 130 BILLION TOTAL AND THE CAPITAL ENDOWMENT CONTRIBUTION TO STATE PARTICIPATION AGENCIES WILL RECEIVE 1642 (059 IRI, 522 ENI, 170 EFIM) BILLION IN ADDITION TO THE 101 BILLION LIRE ALREADY PROVIDED. INVESTMENT IN RAILWAYS WAS ALLOCATED 400 BILLION LIRE. SINCE 750 BILLION FOR THE CAPITAL ENDOWMENT FUNDS OF STATE AGENCIES WAS ALREADY PROVIDED FOR IN THE 1978 BUDGET NEW TOTAL EXPENDITURES APPROVED AMOUNTED TO 2,680 BILLION LIRE.

5. COMMENT. THE ANNOUNCED MEASURES DISAPPOINTED POLITICAL LEADERS OF THOSE PARTIES SUPPORTING THE GOVERNMENT, LABOR UNIONS, INDUSTRY REPRESENTATIVES AND MOST COMMENTATORS. THE COMMUNISTS (PCI) AND THE SOCIALISTS (PSI), WHICH ARE MEMBERS OF THE PARLIAMENTARY MAJORITY AND WHOSE SUPPORT IN PARLIAMENT IS CRUCIAL IF THESE MEASURES ARE TO BE INTO LAW, HAVE CRITICIZED THESE ACTIONS ON BOTH POLITICAL AND ECONOMIC GROUNDS. ON THE POLITICAL SIDE, THEY ARE CRITICIZING THE GOVERNMENT FOR: (A) FAILING TO CONSULT WITH THEM BEFORE TAKING THESE MEASURES, AND (B) USING

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O 301620Z MAY 78

FM AMEMBASSY ROME

TORUEHC/SECSTATE WASH DC IMMEDIATE 3151

TREASURY DEPT WASH DC IMMEDIATE

INFO AMEMBASSY BRUSSELS

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THE DECREE LAW MECHANISM WHICH, THEY ARGUE GOES AGAINST THE SPIRIT OF THE POLITICAL ACCORD SUPPORTING THIS GOVERNMENT. ON ECONOMIC GROUNDS, THEY CRITICIZE THESE MEASURES BECAUSE: (A) THEY ARE BASICALLY REGRESSIVE IN NATURE, (B) THEY SHOW LACK OF IMAGINATION (ITS A REHASH OF OLD PROGRAMS). AND (C) THEY TEND TO FEED INFLATION, SINCE MOST OF THE INCREASES WILL BE REFLECTED IN THE SCALA MOBILE. (WAGE ESCALATOR) THESE ARGUMENTS HAVE BEEN

ECHOED BY LABOR UNIONS AND MANY PRESS COMMENTATORS.

6. WHILE THESE CRITICISMS ARE THEMSELVES A FAMILIAR TUNE, THEY ARE NOT UNWARRANTED. TREASURY MINISTER PANDOLFI HAD BEEN PROMISING A "MINI-BUDGET" BEFORE THE END OF MAY, IMPLYING THAT THIS WOULD REPRESENT A COHERENT EFFORT TO REDUCE THE ENLARGED PUBLIC SECTOR DEFICIT TO A MORE MANAGEABLE LEVEL (NOBODY IS REFERRING TO THE 24,000 BILLION LIRE TARGET ANY LONGER). WHAT  
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WAS APPROVED NET HOWEVER, WAS A HODGEPODGE OF UNCOORDINATED EFFORTS WHOSE IMPACT IRONICALLY ENOUGH IS TO INCREASE THE SIZE OF THE DEFICIT BY 1,2400 BILLION LIRE. WHILE

THIS MAY BE A FIRST STPE IN THE GOVERNMENTS ATACK ON  
THE DEFICIT AS PANDOLFI HAS STATED THE WAY IT WS DONE  
DOES NOT ENGENDER MUCH OPTIMISM. WE ARE ALMOST  
SIX MONTHS INTO 1978 AND NOTHING SIGNIFICANT HS BEEN DONE  
TO REDUCE THE ANTICIPATED DEFICIT FROM ITS 25,000  
BILLION LIRE TREND (THE LAST DEFICIT FIGURE  
GIVEN BY PANDOLFI). GARDNER

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## Message Attributes

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